# RESTRICTIONS ON TRADE,

## FROM A COLONIAL POINT OF VIEW.

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## PREFACE BY THE AMERICAN EDITOR.

THE following essay, republished from a late number of the London *Fortnightly Review*, is much larger than the limitations of its title, which we would amend, by renaming it Restrictions upon Trade, from a National Point of View. The author makes the striking and truthful observation, that in Austria, France, the United States, and the British Colonies, "the party of progress is identified with a restrictive commercial policy," *i. e.* is Protectionist, "while the Conservatives are the most uncompromising of Free Traders." Ecclesiastical and political monopoly, imperialism, and Bourbonism, fraternize with Free Trade, while the advocates of free speech, and a free press, and the opponents of slavery, are Protectionists.

In discussing the question *Who pays the duty?* the author concludes, that often the consumer does not pay it, and that, under certain circumstances, it has the effect of cheapening commodities, rather than enhancing their cost. He concludes further, that even when the local producer can increase his prices to the full amount of the duty, the consumer and the State may alike gain by the substitution of a native for a foreign industry. Vindicating thoroughly, by abundant argument and example, the policy of imposing restrictions upon trade as a means of stimulating production, utilizing labor, and ensuring plenty, the author seems disposed to limit it in practice to a set-off against the taxes which local producers pay toward the local revenue. He argues, that the foreign producer should contribute to the same extent as the home producer, or otherwise the latter suffers injustice. He does not consider that this may not be enough to put them upon a footing of equality, and that if the foreigner possesses cheaper capital or cheaper labor, there must be, as against these advantages, countervailing duties. This is all that we claim, and our English Author in effect underrates the policy of restrictions on trade, not only from a Colonial, but also from an American point of view, and his argument allows no limitation of duties which prevents them from being protective. This paper is a terse and conclusive answer to the Cobden Club Speech of D. A. Wells.

AN observant journalist * has remarked that it is a singular fact that in Austria "those who have vigorously struck down every ecclesiastical and political monopoly throughout the Empire are the most vehement advocates of a restrictive commercial policy, while, on the other hand, those who are in favor of free trade are the most ardent supporters of ecclesiastical privilege." Austria is not singular in this respect. In France the advocates of free speech and a free press are restrictionists, while imperialists, as a rule, are free traders. In the United States the abolitionists, or republicans, are avowed restrictionists, while the democrats are as decidedly in favor of free trade. Precisely the same phenomenon may be observed in the British colonies. In Canada, Australia, and New Zealand, the party of progress has always been identified with a restrictive commercial policy, while the conservatives are the most uncompromising of free traders. Indeed it may be said that one-half of the entire English-speaking race are, in one shape or another, in favor of a restrictionist policy, and of this half the great majority are advanced liberals. It is the national creed in the United States, Canada, and the leading Australian and New Zealand colonies. That it should be so appears to the typical Englishman a very remarkable instance of perversity, and he can only account for the phenomenon by

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* *The Economist.*

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attributing it to the ignorance and folly which his hasty estimate of democratic communities leads him to suppose must be their predominant characters.

If these colonial communities have a reason for their creed, as doubtless they have, it should be worth while to examine it. Let us, at all events, do them the justice of looking at the question from their own point of view. Now, in order that we may be in a position to do so, we must reconsider a doctrine which has hitherto been held to be one of the best established in the whole range of political economy. We refer to the doctrine usually held with regard to taxes on commodities. Political Economists of the English school express themselves confidently to the effect that, under all circumstances, taxes on commodities ultimately fall on the consumers. They allege that the producer, or the importer, as the case may be, pays the tax in the first instance, and passes it on to the dealer; that the dealer again passes it on to the consumer; and that the latter, as he cannot again pass it on, inevitably bears the burden of it. We hope to be able to show, before we have done, that taxes on commodities are sometimes intercepted before they reach the consumer; that when they do reach the consumer, they are not always paid by him, that in fact, he sometimes passes them on; and that even when they are paid by the consumer he may only suffer a temporary loss for a permanent gain. At the same time we wish it to be distinctly understood that we do not controvert the generally received doctrine on this subject further than we have now indicated. We merely desire to point out certain conditions which seem to us to limit its universal application.

Generally speaking, when the price obtained for any commodity is not the highest which consumers are willing to pay for it, any tax imposed on that commodity will fall on the consumers; but when the conditions are reversed, and the price obtained is already as high as consumers are willing to pay, the tax will fall on the producers. It may be maintained, however, that even when the price obtained for a commodity is not the highest the consumer is willing to give, any tax imposed on such commodity may still fall on the producers. This is a result that often follows when it is an object of special importance to producers to secure a foreign market for the disposal of their surplus stock. It may be a matter of convenience to them to be able to employ their hands and machinery, during certain periods of the year when the home demand is dull, in manufacturing expressly for the foreign market; and rather than not have this outlet for their goods, or constant employment for their labor and capital, they may often be content to forego part of their usual profit, or what might be equivalent to the amount of duty their goods might have to pay in entering a foreign port. In ordinary commercial transactions it is found that people usually take all they can get for their goods, and often a great deal more than is either reasonable or just.

Again, when the tax is of small amount, and when there is consequently a difficulty in apportioning it to consumers, it may fall on the producers or intermediate agent. Some time ago the Italian government imposed a multure tax, which, it was supposed, would have the effect of increasing the price of bread. No such effect followed, however. The only effect of

the tax was to close a large number of the smaller mills throughout Italy, leaving the tax to be paid by the owners of the more efficient mills out of the profits of their larger business.* So with the English shipping dues, which, as a matter of fact, are not paid by the merchants or consumers but by the shipowners. In answer to a deputation which waited on the Chancellor of the Exchequer recently, Mr. Lowe, adopting the popular view on this question, attempted to explain that the shipowners did not pay the dues out of their own pockets; that they only advanced the money to the merchant; that the merchant again indemnified himself by raising the price of his goods to the consumers. But it appeared that in this particular case Mr. Lowe's theory did not square with the fact, as the deputation, which consisted of the leading shipowners in England, positively assured him that no such transfer took place, and that they, and they alone, paid the dues. The deputation further explained that the shipowners adopted this course because they found it inconvenient to adjust the charges to their particular business, owing to the smallness of the amount.

We now come to an entirely new class of phenomena, when the incidence of taxation becomes a matter of secondary importance. A tax may, under certain conditions, have the very opposite effect from which it usually has, for instead of increasing the price of the commodity taxed it may have the effect of diminishing it. An import duty has this effect when the country imposing the duty has facilities for producing the commodity which it taxes. Of course the reduction in price in such a case is a question of time, depending upon the energy with which the manufacture is taken up, and the facilities for obtaining the requisite capital, labor, and raw material. The manufacture of cotton in the United States furnishes an illustration of the effect of import duties in this respect. In 1816 Congress passed a tariff, imposing a duty of 25 per cent. on all cotton fabrics entering any port in the United States, the cotton manufacture in that country being just then in its infancy, and struggling against excessive imports from abroad. This high duty was continued, with slight modifications, till 1834, when it was somewhat reduced, but before the reduction took place the manufacture of cotton, particularly the coarser kinds of fabrics, had been thoroughly established, and the United States, from being an importer had become a large exporter of this class of goods. From the evidence given before the Select Committee of the House of Commons on imports, in 1840, it was indisputably proved that American cotton goods had, previous to this time, been sold in the East and West Indies, in the Brazils, and in other South American States, at a lower price than the same kind of goods made in England could be sold for.

A high duty was also about the same time imposed on leather, wooden and iron ware, tools and implements of all kinds imported into the United States, and the consequence was that importations of that class of goods have gradually decreased, and cheaper home-made manufactures have taken their place. American-made boots and shoes, carriages, and numerous other articles of manufacture now compete in the world's market with the cheapest products of British workshops, while in the case of mining and

* Finance Minister's Statement for 1869.

agricultural tools and implements, the American products have driven the British out of the field all over the world. If American producers can undersell competitors abroad, there can be no doubt that American consumers can buy cheaper at home, and the duty therefore must have been a gain rather than a loss to them. That the imposition of the duty on imports and the growth of the home manufacture, stand in the relation of cause and effect, there can hardly be a doubt, judging from these and other instances I might refer to.*

But perhaps the clearest case on record of the effect of an import duty in ultimately cheapening the price of a commodity, is the sugar-beet manufacture in France. When the continental blockade had, in the beginning of the present century, increased the price of sugar in that country, the French Government instituted a series of experiments with a view to the extracting of this commodity from beetroot; but with the appliances of science then at command, no more than two per cent. of sugar could be extracted from beet, while the quality, at the same time, was very inferior. The manufacture consequently languished for a long period, and only obtained importance in 1836, when the produce manufactured in that year amounted to 49,000,000 kil., the industry being at this time protected by a differential duty of from $42\frac{1}{2}$ to $49\frac{1}{2}$ francs per 100 kil., as against the colonial sugar manufactured from cane. With the increase of the home manufacture the importation of colonial sugar proportionately fell off, and so did the revenue from this source; to make up for the loss thus accruing, the government imposed an excise duty on sugar manufactured from beet of from $16\frac{1}{2}$ to 22 francs per 100 kil., according to quality, the home manufacture being still favored by a differential duty of from 26 to $27\frac{1}{2}$ francs per 100 kil. The imposition of this excise duty had the effect, however, of closing one-fourth of the sugar-beet factories throughout the country, and the total produce fell off in consequence, in the year 1839, to $22\frac{1}{2}$ millions of kil., or less than one-half of what it was three years previously. But the industry gradually recovered itself, and in 1842 the produce reached 41 millions. In 1843 an Act was passed by which the duty on indigenous sugar was, during the course of the next five years, to be gradually assimi-

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* Alexander Hamilton, Secretary to the Treasury during Washington's administration, and the greatest statesman America ever produced, says:—"Though it were true that the immediate and certain effect of regulations controlling the competition of foreign with domestic fabrics was an increase of price, it is universally true that the contrary is the ultimate effect with every successful manufacture. When a domestic manufacture has attained to perfection, and has engaged in the prosecution of it a competent number of persons, it invariably becomes cheaper. . . . The internal competition which takes place soon does away with everything like monopoly, and by degrees reduces the price of the article to the minimum of reasonable profit on the capital employed."—*Treasury Report*, Dec. 5, 1791.

The following testimony may be considered impartial as regards the effect of the American tariff on the edge-tool trade. It is from Ryland's *Iron Trade Circular*, published at Birmingham, England, and is dated March 4, 1871:—"The edge-tool trade is well sustained, and we have less of the effects of American competition. That this competition is severe, however, is a fact that cannot be ignored, and it applies to many other branches than that of edge-tools. Every Canadian season affords unmistakable evidence that some additional article in English hardware is being supplanted by the produce of Northern States, and it is notorious how largely American wares are rivalling those of the mother country in other of our colonial possessions, as well as upon the Continent. The ascendence of the protectionist party in the States continues to operate most favorable for the manufacturing interests there, and it was no wonder that, under such benignant auspices, the enterprise in this direction is swelling to colossal proportions. The whole subject is one demanding the serious attention of our manufacturers."

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lated to that on sugar imported from the French colonies. This was followed by the downfall of more establishments, chiefly those that were badly managed; but again the home production increased till 1850 (that is, two years after the duties had become assimilated), when the quantity manufactured reached 65 million kil., and from that time till the present the production has steadily increased year by year.* That is not all; the most remarkable fact has yet to be stated. In 1864 an Act was passed imposing a differential duty *against* the home-made sugar, and in favor of sugar imported from the French colonies. By that Act the home product was made to pay an excise duty of, according to quality, from 42 to 44 francs per 100 kil., whereas the sugar imported from the French colonies paid, from the 15th of June, 1867, 5 francs, and subsequently 3 francs 60 centimes, less per 100 kil.† The beet-sugar industry has been able to stand this strain upon it, and is now actually repaying the State on the one hand, and the consumer on the other, for the assistance rendered to it in the earlier stages of its existence. But that, we may observe by the way, is a very small portion of the benefits that have accrued to the country from the establishment of this industry. France not only produces enough sugar for her own consumption, but is also an extensive exporter. Large quantities of French-made sugar are annually exported to England, Belgium, Holland, Germany, Sweden, Russia, Italy, the Barbary States, Egypt, La Plata, and numerous other countries.‡ The manufacture of beet sugar has, indeed, become one of the most important industries in that country, employing an enormous amount of both labor and capital; while the State now derives, directly and indirectly, a vast revenue from this one industry, sufficient in time to repay even the large preliminary expenditure (in the shape of differential duties) invested in its establishment.

An import duty in such cases as we have referred to has the effect of enabling local manufactures to develop themselves. It renders local competition possible, and permits a new class of producers to enter the field. And this, too, it does without showing any favoritism towards the local producers. The principle of imposing import duties on foreign commodities is a perfectly fair one. An import duty may be regarded simply as a set-off against the taxes local producers pay towards the local revenue; and if it acts, at the same time, as a stimulus to local production, it need not on that account be considered objectionable. If foreign commodities were admitted duty free while the home products were subjected to heavy revenue taxes, it is evident the home producers would be driven out of the field. An import duty is imposed on foreign goods on the principle that those who benefit by the government should contribute towards its support; and as the foreign producer benefits by the sale of his goods, it is but right that his goods should bear a proportionate share of the expenses of government. As the home producer contributes to the revenue, it is but fair that the foreign producer should contribute also, and, as near as possible, in the same proportion. If this be not done, the local producer will suffer manifest injustice. Suppose two countries similarly situated in every respect,

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* Trebonski: "The Productive Forces of Russia," vol. i. p. 470.
† *The Economist*, Feb. 15th, 1868. ‡ Ibid., Feb. 1st 15th, 1868.

but the one having an established government, and the other (say some neutral territory, under the protection of a powerful neighbor) with no government at all, and therefore requiring no revenue from taxation; and suppose that the only boundary between these two territories was an imaginary line, and that the goods manufactured on the one side of this line paid no taxes whatever, while those manufactured on the other were subjected to a high rate. In such a case it is plain that, if the manufacturers on the one side of the line who paid no taxes were allowed to enter their goods on the other side of the line duty free, they would enjoy advantages for which they had given no consideration; and the position of the manufacturers on that side of the line who paid taxes would be reversed, as they would have paid for advantages which they had not received, namely, protection to their property and labor. Or take another case. Suppose that in two adjoining States both similarly situated in every respect, and both under established governments, only that the inhabitants in the one State were much more heavily taxed than those in the other. In such a case, if the goods manufactured in the lightly-taxed country were admitted duty free into the country that was heavily taxed, one of two things would happen; either the taxation of both countries would have to be assimilated, or the lightly-taxed country would manufacture for both. The former alternative is often an impossibility; the latter would be simply ruin to the heavily-taxed community.

It is no doubt true that, in ordinary cases, commodities pay taxes in the country where they are manufactured; but, on the other hand, these taxes are often remitted when the commodities are exported, and sometimes the export trade is even directly encouraged by a system of bounties. But whether they pay or not is a matter of no moment, so long as the country to which they are exported is none the better for it. In the imposition of taxes on individuals, the State makes no distinction between citizens and foreigners; all are required to contribute alike, regardless of the relation any portion of them may bear towards any foreign power. And so it ought to be with regard to the products of human labor, whether home or foreign. They should contribute alike to the support of the government of the country where they are consumed. Mr. Mill, when arguing against discriminating duties, maintains that whenever an import duty is placed upon a foreign commodity, the home-made commodity should be subjected to a corresponding excise duty, so that the home and the foreign producers shall be on exactly the same footing. This is precisely what we contend for in the interest of the home producer. Mr. Mill, however, forgets that the latter already pays indirectly his fair share of the taxation of the country, and to charge him, in addition, an excise duty on the commodities he manufactures, would be manifestly unfair. This would be taxing the home for the benefit of the foreign producer, a policy which may be disinterested enough, but scarcely commendable for all that.

It is difficult enough at any time to establish manufactures in a new country, but altogether impossible if the local manufacturers are unfairly handicapped. The foreign manufacturer has possession of the market, to begin with. Next he is usually a man of large capital, while the local manufacturers as a rule are men of small means. Once in possession of the

market, with unlimited command of capital, it is a very easy matter to maintain it. No sooner is he informed, through his agents, that a certain commodity which he has been supplying is being superseded by a local production, than the foreign manufacturer immediately forwards to that market an extra supply of the commodity in question. The market being thus supplied with more than is required, prices recede, and the local manufacturers not having capital enough to enable them to hold out for a remunerative price, succumb to the pressure. The latter out of the way, the foreign manufacturer has the field all to himself again, and from the high prices he can now obtain for his goods he may easily recoup himself for his previous losses. This is a plain statement of what occurs every day in the colonies when any attempt is made to compete with old-established industries.

As an illustration of how the system works, take the following statement, recently made at a public meeting in Sydney, by Mr. Mort, an old and enterprising colonist of New South Wales. "He had," he said, "seen a large number of industries perish in this country, not because they had not inherent strength, but because they had been strangled, as it were, by the competition of other countries. He could refer to the time when soap was an article of importation into this country. Every man knew perfectly well that we could make soap a great deal cheaper than we could get it from England, for we had the tallow and everything on the spot to do it with. But constant shipments were perseveringly sent out, which kept down the market price, and the consequence was that unless a man had a very strong back indeed he could not bear up against them until he could establish his industry. Take the article of maizena, with which he was intimately connected. A great many years ago he observed that corn grew here almost spontaneously, and was a large industry of our farmers, but yet he saw that corn flour was sent out here, and sold at the almost fabulous price of one shilling a pound. He at last met with a gentleman such as he had long been looking out for, and, with another friend, he commenced the maizena industry. We immediately lowered the price to fivepence a pound; but we had to contend against shipments which kept dropping in now and then in the hope, as he supposed, that we should be swamped, as indeed we should have been, had we not thoroughly believed in the industry. We now sold our maizena (which many people said was better than the corn flour imported) at threepence a pound less, and yet we were in danger of having that industry strangled. We were rich in kerosene shale, and yet thousands of tons of kerosene oil were annually imported, although we had abundance of the material from which we could make it at a less price. It was the perpetual small shipments that came rolling in that swamped us."*

Take another case. The colony of Victoria exported in 1870, according to the statement of the registrar-general for that year, tallow to the extent of £358,863, and she imported the same year candles and soap (the principal material of which was tallow) to the extent of £132,129. A glance at these figures would lead a stranger to suppose that the Victorian colonists were the reverse of enterprising, or they would have retained at least a portion of that tallow to convert it into candles and soap for their own use. This con-

* Reported in the *Sydney Morning Herald*, March 25th, 1870.

clusion, however, would be entirely erroneous. Year after year the most systematic and energetic attempts have been made in the colony to manufacture both candles and soap for domestic use, but without success, for as soon as the local manufacturers had supplied a suitable article, and reduced the price in order to effect a sale, large shipments came pouring in from abroad, and swamped the market. The attempt was repeated time after time, and no sooner had one manufacturer failed, and high prices again become the rule, than another competitor was ready to enter the field, and so one followed the other in rapid succession, but always with the same result—utter ruin to all connected with the undertaking. Under the tariff of 1871, however, candles and soap pay an import duty of twopence per pound, and there is now a prospect of the manufacture of these commodities becoming an established industry in the colony.

One more illustration. The colony of Victoria is a great wool-producing country. The exports of wool from this colony in 1870, according to the aforementioned authority, amounted to £3,205,106, and the imports of woollens and woollen piece goods in that year to £817,087. A cloth factory was established in the town of Geelong several years prior to this date, and was a fair success, the company which owned it paying a dividend of ten per cent. on the capital invested. A kind of tweed was made at this factory, which enjoyed a high reputation in the colony, owing to its good wearing qualities; but an enterprising importing firm in Melbourne forwarded a sample of this cloth to Yorkshire with instructions to make a quantity equal in appearance, at a price mentioned. The consequence was that large shipments of shoddy imitations of this article were imported into Victoria, and sold at a price lower than the home-made cloth could be produced for, and the company's cloth—which was really the cheaper article of the two, taking the superiority of the quality into consideration—became a drug in the market. To save the local industry from utter annihilation, the legislature imposed a duty of ten per cent. on all cloth imported into the colony, and since then the manufacture of cloth has assumed larger proportions, and new factories have already started, or are about to start, in various parts of the colony.

Shoddy illustration

It might naturally be supposed that a country situated at a great distance from its source of supply would be protected from a periodical glut of imports. But such is not the case. It is only a question of a delay of months, instead of weeks or days, in the forwarding of the goods to their destination. In fact, the very distance from the source of supply inflicts another evil on consumers. The long voyage offers ample facilities for forestalling the market. Nowhere do goods so fluctuate in price as in those countries which are situated at a great distance from their source of supply. Australia and California for instance, which draw their chief supply of manufactured goods, the one from England, *via* the Cape of Good Hope, and the other from the Atlantic States, *via* Cape Horn, are constantly subjected to this system of forestalling. There is scarcely a commodity imported into Australia but has, at one time or another, been manipulated in this fashion. The practice is there carried on in the most systematic manner. There are individuals there who make it their special study to create an artificial scarcity. The *modus operandi* is very simple. No sooner is there the

slightest prospect of even the most temporary deficiency in the supply of any commodity, than some one immediately commences to buy up every parcel in the market he can lay his hands on, and every shipment to arrive. Once in possession of the bulk of available stock, and he is in a position to demand his own price from the consumers. In California the same system prevails. "The mercantile business is very lively and fluctuating in California," says Mr. Hittell. "There is no people in the world, who, in proportion to their numbers, import so largely of foreign goods, or who pay such prices for them. The amount consumed is not very great, the supplies are irregular, and the time required to obtain shipments round Cape Horn about four months, and therefore it is not a very difficult matter to forestall the market; and it is a frequent occurrence that a few wealthy men combine together to try to buy up all of a certain kind of merchandize, and then control the market and raise the price. In other countries it is impossible to get any accurate information about the supply of an article which is stored in large quantities in fifty cities, and owned by hundreds of merchants and producers; but in California the main stock of all imported goods is stored in San Francisco, and is held by a few men. Our business of dealing in merchandizing is therefore full of speculations, which, though dangerous, are agreeable to the bold and enterprising, and contribute to render our trade peculiar and different from that of other States."* It is apparent, therefore, that in countries remote from the source of supplies, like Australia and California, those who consume imported goods have to pay black-mail to forestallers, in addition to shipping charges, manufacturer's profit, and importer's commission; and this black-mail is often of no trifling amount, but varies, according to circumstance, from ten to one hundred per cent. on the ordinary market price of the goods. In estimating the difference in price between an imported and a home-made commodity, however, this contingency of forestallers' profit is seldom or never taken into account.

There are besides other circumstances which must not be lost sight of in estimating the comparative price of an imported and home-made commodity. It does not by any means follow that because the price of a home-made commodity is higher than that of an imported one, the consumer is a loser by the extent of the difference, for the higher priced commodity, even when the quality is the same, may often, in the end, be the cheaper of the two. Suppose, for example, that in a distant British colony there is a steady demand for steam-engines, the manufacture of which has not been established in the colony; the intending purchaser, looking only at first cost, ascertains that he can import the kind of article he wants for somewhat less than he can purchase it at, made in the colony, and he accordingly orders it from abroad. He does not take into consideration, as an element in price, the loss of time in procuring his steam-engine from a distant part of the world; the risk he encounters of having forwarded to him a different article from what he ordered; the cost of getting all the more intricate working parts in duplicate; or the extra expense involved in making the necessary repairs afterwards, owing to there being no proper engineering establishments in the colony. Ten per cent. on cost price would probably be too little to

* "Resources of California," p. 333.

The case of our getting all the Canada Pacific vehicles [illegible]

allow for these contingencies, so that if an *ad valorem* duty of ten per cent. were imposed on all imported steam-engines, and if that duty had the effect of establishing their manufacture in the colony, the consumer would virtually pay no more for his home-made article, even were the home manufacturer to take the full benefit of the duty, than the same kind of article would have cost him before its imposition, while the colony would be the gainer by the establishment of a permanent industry. We are aware that this latter advantage is considered to be an illusory one, as capital and labor, it is alleged, would only be diverted from one industry into another, without any real benefit to the country. To this we answer, first, that this objection would have no force whatever, unless the *whole* capital and labor of the country were already fully and remuneratively employed (a supposition never yet realized in any country); and secondly, even if it were so, these objections could have no weight with those who believe in the doctrine of demand and supply, for if the creation of a new industry withdraws capital and labor from an old one, other capital and other labor will flow into the latter from other quarters, and so it would go on, till every vacant place was occupied by fresh capital and labor flowing in from abroad—that is always supposing the industries to be remunerative ones.

We have now, we think, shown that, under certain circumstances, the imposition of an import duty has the effect of encouraging local competition, the necessary result of such competition being a reduction in price. But we may be asked, Supposing the duty had the effect of merely substituting the local for the foreign product, that no reduction in price followed, nay, that the price was actually increased, owing to the local producers taking the full benefit of the import duty; would not the consumer, in such a case, be worse off than before, and the State none the better from being deprived of the revenue from the import? Would not the producer be the only one that would benefit by the change, and would not the consumer be robbed for the benefit of the producer? Political economists of the English school tell us that this would be the practical result. But this would be to assume, first, that the impost is so high as virtually to prohibit foreign competition, which would be contrary to the principles here laid down, which are based on a system of equivalent taxation, such as experience has demonstrated to be adapted to encourage, not to prohibit, competition; and, secondly, that if local producers had the field to themselves competition between one another would cease. We cannot admit either assumption. The more equally the local and foreign producers were made to contribute towards the revenue, the keener would be the competition between them, and the same principle would hold equally good in encouraging competition among local producers, if the foreign producers were out of the way.

But even admitting the premises, we demur to the conclusion drawn from them. We maintain that neither the consumer, on the one hand, nor the State on the other, need suffer any loss by the impost. Regarded simply as such, no doubt the consumer would be out of pocket by the transaction (that is, supposing the duty was not intercepted); but regarded, as undoubtedly we ought to regard him, as a member of the community, the expenditure may ultimately be repaid him with interest, and the State also may gain indirectly much more than it has lost from being deprived of the

revenue from the duty. To make the matter plain, let us put a hypothetical case. A country imports foreign manufactured goods to the extent, say, of one million sterling annually, all of which are admitted duty free. As these goods cannot, at present, be produced at home for less than ten per cent. above what they can be imported for, it is proposed to levy on them a ten per cent. *ad valorem* duty, primarily for revenue, and secondarily for the encouragement of local competition. The duty we fix at ten per cent., as that is the estimated aggregated amount of the taxes borne by the local producers. Ten per cent. on one million sterling is exactly £100,000, and that, political economists tell us, is the precise amount that would be filched out of the pockets of consumers for the benefit of producers, if the local took the place of the imported product with the duty added. Let us see, then, how the figures work out. We must first ascertain how this million sterling is disposed of—how much expended in raw material, and how much in wages, interest, and profit. With regard to the first, the proportion expended in raw material, the question will be much simplified if we assume that this can be had in unlimited quantities at home, and that there is no demand for it abroad in its unmanufactured state, such, for instance, as barley and hops (for beer-making), sugar-beet, porcelain clay, iron ore, or, in fact, any agricultural or mineral product. If we assume, also, that there is an abundance of land from which to obtain these products, which would otherwise be unproductive if not used in the manner indicated (as in Australia, for instance), then the raising of the raw material may fairly be reckoned as part of the process of manufacture. Suppose, therefore, that of this million sterling fifteen per cent., or £150,000, represented interest and profit on capital, and the other eighty-five per cent., or £850,000, represented wages; and suppose that we take Mr. Dudley Baxter's estimate of the income of a working man in Great Britain* as our standard, namely, £70, the family consisting of four persons; and the same writer's estimate of the amount of taxes paid out of that income, at ten per cent.; then we have the materials on which we may base a calculation. The above sum of £850,000 would, therefore, if expended in wages, give employment to 12,142$\frac{6}{7}$ workmen, each of whom would contribute in the shape of taxes to the State £7, making altogether £85,000 out of the £100,000. Thus eighty-five per cent. of the duty, which was alleged to be filched out of the pockets of consumers, has already been returned to the coffers of the State; and as the remaining fifteen per cent. allowed for interest and profit on capital has not been wasted or hoarded, but expended again, chiefly in labor in one shape or another, and as that labor likewise pays taxes at the same rate as the other, we may consider the whole £100,000 has been returned. But that is not all. The money paid for wages has not, as we have said,

* In a paper read before the Statistical Society of London, in January, 1869, on the Taxation of the United Kingdom, Mr. Baxter estimated that a man with an income of £10,000 a year, and a household of fourteen persons, paid [illegible] per cent. in taxes; a man with an income of £500 a year, and a family of seven persons, paid 10½ per cent.; and a working man with an income of £70 a year, and a family of four persons, paid 7 per cent. This latter amount, however, he estimates, is only what a working man of temperate habits pays, and over and above this there is a residue of taxation of £10,000,000 a year, derived from alcoholic drinks, which are consumed chiefly by the working classes, which, in his estimation, brings the working man's taxes fully up to 10 per cent.

been thrown away; it has only changed hands, and it will keep on changing hands. The £63 of yearly income remaining to each laborer after paying taxes, will be again expended in wages and profits. The baker, the butcher, the tailor, the shoemaker, will each receive his share of this amount; and these again will pass it on to the miller, the grazier, the manufacturer, the tanner, and so on, in one neverceasing round, till it finally passes out of the country. In this way a very small industry may give employment to a whole army of taxpayers, and the revenue from the import duty, which the State allowed itself to be deprived of, may be returned to it a hundredfold. As for the consumer, he participates in the general benefits enjoyed by the entire community; he also pays less taxes, as the expenses of a government are not increased in proportion to the increase of population, though they are diminished in proportion as population is prosperous.

We shall, no doubt, be met with the stereotyped objection about State interference in the regulation of trade, but without entering into the question of what are and what are not the functions of the State, we would simply ask this question. If it is improper to impose a tax when one of the objects aimed at by its imposition is the development of local industry, would it not be equally improper to *abolish* a tax for the same purpose, should it be discovered that its maintenance has a contrary tendency? In other words, if it be wrong to impose a tax, will it not be also wrong to remove one, when its removal may alter the existing state of things? If, say, an excise duty of five per cent., imposed for revenue purposes on a home-made commodity, had the effect of discouraging its manufacture (the five per cent. just turning the scale in favor of the foreign commodity), according to the let-alone doctrine, it would be improper for the government to abolish the duty *merely* because it was injurious to the home trade. Up till 1845 a duty of $\frac{5}{16}$d. per lb. was imposed on all raw cotton imported into England from America; but it was found that this duty had the effect of discouraging the cotton manufactures of England, and was just sufficient to enable the American manufacturers to compete successfully with her in the colonial and foreign market. The legislature of England, however, did not scruple to abolish the tax as soon as it was discovered that it prevented the growth of an important local industry. The immediate effect of the measure was to transfer the seat of the cotton manufacture from Massachusetts to Lancashire. Did the legislature do wrong in abolishing the duty on raw cotton?

Or take another case. By the terms of the union, Scotland was, for the first time, allowed to hold direct intercourse with the American Colonies and the West Indian Islands. The inhabitants of the little village of Greenock, in the west of Scotland, saw in this a fine opportunity for increasing their trade, and with great foresight and self-denial they voluntarily imposed on themselves an assessment of 1*s.* 4*d.* sterling on every sack of malt brewed into ale within the limits of the corporation, and the money so raised was to be expended in making a harbor for the port. The work was begun in 1707, and finished in three years afterwards, at an expenditure of over £5,-000. The undertaking proved a complete success. The assessment and port dues cleared off the whole debt in thirty years, and left a balance to their credit of £1500; the population of the place was largely increased; an important trade was opened up which has been retained to this day, and

which has added immensely, not only to the town of Greenock, but to the whole west of Scotland.* The corporation has been complimented for its enterprise and self-denial in this matter, and justly so; had the government done on a large scale what the corporation did on a small one, would the case have been altered in the slightest degree?

In all discussions of this nature we must not fail to distinguish between the science and art of political economy. Science has to do with laws; art with the application of those laws. The science of political economy teaches us that labor is the source of all wealth; art how to apply that labor to the best advantage. So far, therefore, from the State exceeding its functions in looking after the material interests of the nation, it may rather be considered one of the chief objects of its existence. The prosperity of a country depends upon the industry of its inhabitants. With nations, as with individuals, poverty follows idleness, and wealth industry. The true test of good statesmanship is the prosperity of the country; and the art of statesmanship consists in applying the laws of political economy to the development of the resources of the country so as to provide for the full and profitable employment of the whole population. But no country exclusively engaged in raising raw produce, or, in other words, no country without manufactures, can fully employ the whole of its available labor. There will always be some portion of it wasted, no matter how industrious the people. Raw material is procured almost exclusively by out-door labor, and such labor is always intermittent in its nature, as it depends on the vicissitudes of the seasons. In the sugar and coffee plantations of the West Indies no continuous work is done for many months in the year.† In colder climates the severity of the winter puts a stop to all out-door occupations. In the Orkney Islands, Norway, Sweden, Russia, and North Germany, all out-door labor entirely ceases for seven or eight months out of the twelve.‡ It follows, therefore, that if the inhabitants of those countries confined themselves to agricultural pursuits, they would be unemployed more than half their time. To prevent this enormous waste of productive power, it becomes necessary to provide them with in-door employment, in other words, to encourage the growth of manufactures.

But, apart from the intermittent nature of out-door labor, there is another difficulty in the way. The whole population of a country can never be fully employed unless there be a diversity of occupations suitable to the young, the old, the weak and infirm of both sexes. A farmer can always obtain a larger return from a mixed system of husbandry, or a combination of live stock and grain, than from either separately. A greater weight of herbage can be raised from a plot of ground, if sown with several varieties of grasses, than with one only.§ And so it is with the industry of a country—the more varied the occupations the greater the prosperity. If growing grain or raising cotton be the only occupation of its inhabitants, what becomes of

* McCulloch, "Geographical and Statistical Dictionary," vol. i. p. 930.
† Bigelow, "Notes on Jamaica," p. 54.
‡ Laing, "Denmark and the Duchies," p. 299. Trebonski, "Productive Forces of Russia," vol. i. p. 442.
§ Darwin, "Origin of Species," p. 113.

those (and they form a large proportion of every population*) who are physically incapable of undergoing the fatigue of out-door labor? If nature ever intended, as modern theorists would have us believe, that the principles of the division of labor should be carried to the extent of one country growing the produce for another to manufacture, we should expect to see population arranged on a somewhat different plan from what it is at present. Unfortunately for the theorists, we find all classes of population pretty equally represented in every country. It is very noticeable, however, that all over the world those countries which are destitute of manufactures are notoriously poor; while those which combine manufacturing with the raising of raw produce are distinguished for their wealth and general prosperity. Compare the state of Ireland, past and present, with that of England and Scotland,† or take Ireland by herself, and compare the south and west with the northern part of the island, and the contrast is remarkable enough. Not less striking is the contrast between the Southern States of America and New England. The inhabitants of Barbadoes have no other occupation than the growing of sugar, and they are in a state of abject poverty. In the sugar and coffee districts of Cuba, where nature has lavished her richest gifts of soil and climate, there exists, in the opinion of a world-wide traveller, "the most desperate and deplorable poverty on the face of the earth."‡

If the absence of diversity of employment produces such results as these, need we wonder at the steps taken by some of our colonies to create manufactures through the medium of the custom-house? Australia is but a young country yet, with plenty of available land for settlement, with exuberance of resources, mineral and agricultural, and hitherto not greatly overburdened with population, and that, too, of a class consisting, probably, of a smaller proportion of the physically incapable than any other country in the world. Yet for years past the great difficulty has been to provide employment for the rising generation. The question of tariffs there has been eminently a social one. In Victoria three successive general elections have taken place, a majority of the Assembly being returned pledged, on each successive occasion, to a higher and higher tariff, and all because the question of manufactures came home to every elector. This view of the question may be new to most English readers of the present day; but the student of history will remember a period when the people and Parliament of England took a not very dissimilar view of the matter. All countries in a certain stage of development feel the want of diversity of occupation. England has long outgrown that stage which is peculiar to young countries; but she felt the want of it at one period as keenly as any of her colonies do now. We speak of England at the time when she was not a manufacturing country, but an importer of manufactures; when she was beginning to find out that to grow grain for exportation and wool for other countries to manufacture, was not the most profitable kind of industry for her popula-

* Mr. Trebonski states that the employment of fi[illegible] millions of persons in the manufacture of flax and hemp in Russia did not cause the withdrawal of a single cultivator from the labors of the field ("Productive Forces of Russia," vol. i. p. 499).

† It has been estimated that out of 785 occupations relating to trade, commerce, and manufacture in the three kingdoms, 740 were pursued in England, 501 in Scotland, and only 261 in Ireland.

‡ *Atlantic Monthly*, for January, 1869.

tion. At the time of Henry VIII. and Elizabeth the unemployed question repeatedly forced itself on the notice of the legislature, and the legislature of that period, singularly enough, considered that the best way to prevent "the abominable sin of idleness" was to establish manufactures by the aid of import duties, precisely in the same way as some of our colonial legislatures at the present day are doing. The statutes of the early American colonies present a record of similar experiences. The growing of tobacco was at one time the only kind of employment in many of the early settlements. On the price of that commodity falling to threepence per pound (the price in 1639, and even less subsequently) the settlers were thrown into great distress. After enduring great hardships for some time, the local legislature was induced to offer premiums to secure diversification of employment; but, on these failing, recourse was had to compulsory measures, and acts were passed, compelling the planting of mulberry-trees, the building of tanneries, the erecting of looms, with provisions attached for the employment of a certain number of curriers and shoemakers in every county.

Unless the difference in the conditions between old and new countries be constantly kept in view, the whole object of colonial legislation is apt to be misunderstood. It stands to reason that what may be good for a country with old-established industries may be very bad for a country which has none. Old countries suffer from a plethora of population; new countries from a scarcity. Old countries would prefer employing their surplus labor in manufacturing commodities for new countries; new countries, on the other hand, would rather import the labor that should produce the commodities, than the commodities themselves. Strange as it may appear, it is nevertheless true, that it is just because the party of progress in the colonies are opposed to monopoly in every shape, that they are the advocates of restriction in regard to commerce. Instead of that policy savoring of monopoly, they maintain that it has the very opposite tendency, and their chief object in imposing import duties is to put down monopoly by extending the sphere of competition. In this respect they are more for free trade than the free traders themselves. But, then, they have no wish to perpetuate a sham, or to practise a make-believe system of free trade. English statesmen and journalists are never tired of expatiating on the blessings of free trade, while they know all the time that free trade means monopoly for English manufacturers. It would be folly to expect young trees to thrive side by side with old ones, if the latter cover the ground with their roots, and extract all the nourishment from the soil. Extend the sphere of competition, and restriction, in some shape, is inevitable; narrow it, and competition becomes monopoly. But although the object of the colonists is to encourage competition, it is as a means only, not as an end, and they are, therefore, as much opposed to handicapping industry as the most ardent free traders. They are not favorable to high, or what are called prohibitory, import duties, as they are no less opposed to any system of taxation that would tend to secure the local market to the local producer, than they are to the present system, which, they believe, gives a monopoly to the importer. They would impose restrictions upon trade; but they would impose them upon all alike. They have not one tax for their own people, and another for the foreigner. They claim that all goods of the same kind, brought to the same market, should

pay the same market dues. They may not be free traders, but they claim, at all events, to be fair traders.

To sum up the conclusions arrived at, taxes on commodities do not always fall on consumers, but sometimes on producers, and sometimes on the intermediate agent. When a duty is imposed on a foreign commodity which the importing country has facilities for producing at home, in ordinary cases the duty falls, in the first instance, on the consumer; but when the duty has the effect of increasing competition, the tendency is to a reduction in price, and, therefore, to the ultimate benefit of the consumers. As the duty equalizes the conditions of production between the local and foreign producers, it enables an entirely new class of competitors to enter the field, namely, the local producers; and as the circle of competition becomes extended, the rivalry among producers becomes keener, and prices become lower; for competition inevitably leads to this when it is genuine, and not a monopoly in disguise, as is often the case. If the duty fails to increase competition, it goes direct into the treasury as revenue; if it fails partially as a revenue tax, owing to the local producer contributing part of the supply, and paying no duty, the competition between the local and foreign producers will cause a reduction in price to the consumer, so that the falling off in the revenue will be in some measure compensated for. If the revenue from duty fail altogether, owing to the local article taking the place of the imported and duty-paying commodity, a threefold benefit will be secured. The consumer will gain by a reduction in the price of commodities; the public will gain by increased employment of labor and capital; and, lastly, the State will gain by increased revenue from the additional number of revenue-producing population, supported by the new industry.

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